PRYME OIL AND GAS LIMITED
(ABN 75 117 387 354)
AND
CONTROLLED ENTITIES

APPENDIX 4E
DIRECTORS' REPORT
FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

Appendix 4E

Preliminary Final Report

Results for Announcement to the Market

1. Company details and reporting period

Name of Entity and ABN	Pryme Oil and Gas Limited (ABN 75 117 387 354) and its subsidiaries, Pryme Oil and Gas Inc Pryme Energy, Inc (Consolidated Group)
Reporting Period	12 months to 31 December 2008
Previous Corresponding Period	12 months to 31 December 2007

2. Results for Announcement to the Market

	Up/Down	**% Change**	**Year ended 31 December 2008 A$**
Revenue from ordinary activities	Up	89	3,213,831
Profit/(loss) after tax attributable to the members	Down	26	(2,489,014)
Net Profit/(loss) for the period attributable to members	Down	26	(2,489,014)

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Please refer to paragraph 14 (below)

Dividends (Distribution)	**Amount per security**	**Franked amount per security**
Final Dividend	NIL & Not Applicable	
Interim Dividend		
Previous corresponding period		
Record date for determining entitlements for the dividend		

3. Income statement with notes to the statement

Refer to page 24 of the 2008 Financial Statements and accompanying notes.

4. Balance sheet with notes to the statement

Refer to page 25 of the 2008 Financial Statements and accompanying notes.

5. Statement of cash flows with notes to the statement

Refer to page 27 of the 2008 Financial Statements and accompanying notes.

6. Dividends

No dividends was paid, recommended for payment nor declared during the year in review.

7. Dividend/Distribution Reinvestment Plan (DRP)

The Consolidated Group does not have in operation a DRP.

8. Statement of retained earnings

Refer to page 26 of the 2008 Financial Statements.

9. Net Tangible assets (NTA) per security

	2008 A$	**2007 A$**
NTA per security	0.27	0.21

10. Entities over which control has been gained or lost during the period

Refer to page 43 of the 2008 Financial Statements

11. Associates and joint venture entities

Refer to page 42 of the 2008 Financial Statements

12. Other significant information

Not applicable.

13. Accounting standards used for foreign entities

Not applicable.

14. Commentary on results for the period

Pryme has reported a loss of A$2.49 million for 2008, a 26% improvement over the loss of A$3.36 million for 2007. Revenue from oil and gas sales, at A$2.89 million, was 85% higher than in 2007 (A$1.56 million); this was due to a combination of higher oil and gas prices and a significant increase in gas sales with the commencement of production from the two new wells in the Raven project. Non cash expenses, amounting to A$2.99 million (A$2.63 million in 2007), had a major impact on financial performance and included depletion of operating assets, exploration costs written off and the expense associated with options under the Directors' Incentive Option Plan (DIOP).

On an operating cash flow basis, the Company ended the year with a modest surplus of A$0.69 million a significant improvement over 2007 which had an operating cash flow deficit of A$1.78million. Cash at bank at the end of the year was A$2.96 million.

The value of the Company's investments increased by A$8.75 million to A$26.32 million at the end of the year. This was funded in part with A$6.73 million from capital raisings in the early part of the year and cash from operations. In addition, the declining Australian dollar/US dollar exchange rate through the year has contributed A$4.7 million in increased valuation of the Company's United States assets.

15. Status of Audit

The 2008 Financial Statements have been audited. The Independent Auditor's Report is set out on pages 56 - 57 of the 2008 Financial Statements.

16. Dispute or qualifications if not yet audited

Not applicable

17. Dispute or qualifications if audited

Not applicable

Justin Pettett
Managing Director
Brisbane, Queensland

26 February 2009

DIRECTORS' REPORT

In accordance with a resolution of directors, the directors present their report together with the Financial Report of Pryme Oil and Gas Limited (Pryme) and its wholly owned subsidiaries (together referred to as the Consolidated Group) for the financial year ended 31 December 2008 and the Independent Audit Report thereon. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

1. Directors

The directors of Pryme at any time during or since the end of the financial year are:

(a) George Lloyd – Chairman
Independent Non–Executive Director *(*Appointed 29 January 2008)

Mr Lloyd has a Bachelors degree in Engineering Science (Industrial Engineering) as well as a Masters degree in Business Administration, both from the University of New South Wales. He is a graduate of the Stanford Executive Program, Stanford University, California and is also a Fellow of the Australasian Institute of Mining and Metallurgy.

He has more than 25 years' senior management experience in the resources and energy sectors, with a focus on business development, corporate strategy, mergers and acquisitions and exploration management. He is the Chairman of AWR Lloyd Limited, an Asian-based corporate finance and strategy advisor to the energy, mining and metals industries in the Asia-Pacific region.

He also holds, or has held during the past three years, directorships in the following ASX listed companies:

- Cape Alumina Limited (Chairman, appointed January 2009)
- Ausenco Limited (Non-Executive Director, appointed May 2005);
- Goldlink IncomePlus Limited (Non-Executive Director, November 2007 to April 2008) and
- Equatorial Mining Limited (Non-Executive Director, November 2002 to February 2006).

(b) Justin Pettett - Managing Director and Chief Executive Officer
Executive Director (Appointed 1 December 2005)

As the Managing Director, Chief Executive Officer and co-founder of the Sterling Energy Group of Companies, Mr Pettett has broad experience as a public company director with positions in senior management.

Mr Pettett has worked successfully as a business analyst, broker and Managing Director of medium sized businesses for the past fifteen years, the last eight in the U.S. oil and natural gas industry. He has widespread industry experience, specialising in oil, natural gas and coal bed methane acquisitions and development, as well as extensive commercial knowledge in financial analysis, business development, investor relations, capital aggregation and financial and administrative management.

Mr Pettett also has experience dealing with and advising clients in Australia and worldwide on a range of commodities including base, precious metals and energy.

With the exception of Pryme, Mr Pettett has not served as a director of any Australian listed entity in the last three years.

(c) Ryan Messer - Chief Operating Officer
Executive Director (Appointed 1 December 2005)

Mr. Messer graduated from the University of Central Florida with a degree in Business Administration, majoring in Marketing and Finance and is a member of the Independent Petroleum Association of America.

Mr. Messer has thirteen years of experience in international business, five of which were in management positions in the technology sector focused on developing business within Fortune 500 accounts. The last eight have been in the energy sector, in the area of oil and gas project finance, asset acquisition and divestiture, asset allocation, and risk assessment. He has experience in managing field and land rig operations, developing midstream assets and assisting in the formation of technical teams, all of which were derived from the drilling of over 130 wells, and the resulting field development, spread across five basins within North America.

With the exception of Pryme, Mr Messer has not served as a director of any Australian listed entity in the last three years.

(d) Ananda Kathiravelu
Non–Executive Director (Appointed 1 December 2005)

Mr Kathiravelu holds a Bachelors degree in Business and a Graduate Diploma in Applied Finance and Investment. He is an associate of the Securities Institute of Australia and has over 18 years experience in the financial services industry.

His areas of expertise include corporate advice, capital raising and mergers and acquisitions, with primary focus on the small cap and emerging business sectors.

He is the Managing Director of Armada Capital Ltd, an investment bank and also holds a directorships in the following ASX listed company:

- Transit Holdings Limited (10 August 2006 – current) (Non-Executive Chairman)

(e) John Dickinson – Vice Chairman
Independent Non–Executive Director *(*Appointed 1 December 2005; Resigned 1 June 2008)

Mr Dickinson graduated from the Tulane University School of Business and has 33 years experience in energy sector drilling, completions, production operations and project finance, primarily in the areas of oil, natural gas and coal bed methane resource development, gas gathering, gas compression, gas transmission and project finance of combustion-turbine power plants.

He operated a large oil & gas producing property in South Texas for six years with Mobil Oil and others, and co-developed four electric power projects in the U.S. He later pursued a coalbed methane technology transfer opportunity in Colombia with ECOPETROL, the state-owned oil & gas company, which concluded successfully.

Mr Dickinson is active in the continuing investigation and testing of organic shales and bituminous coals in Oklahoma in the Arkoma and Cherokee Basins, and several other basins in the U.S. He has been published several times in industry journals, including: Independent Energy Magazine and Cogeneration & Small Power Monthly and has recently represented venture capital funds in London, Connecticut and Hong Kong in the investigation of new drilling technologies and power project development, including renewable energy.

Mr Dickinson has not served as a director of any Australian listed entity in the last three years.

(f) Philip Judge
Non–Executive Director (Appointed 25 September 2006; Resigned 29 January 2008)

Mr Judge has been involved in international business for more than 20 years and has extensive commodities experience having worked in, researched, written and lectured on the base and precious metals and commodities markets for more than a decade. He has worked as a trustee, investment strategy advisor and researcher with numerous qualified sophisticated investors and private venture capitalists worldwide. Mr Judge became involved in the oil and gas industry in 2004 in his capacity as director of the Anglo Energy Company. He has also founded, and together with a dedicated team, built and managed a successful Australian television production and media services company.

Mr Judge is also involved with the following companies:

- Founding director of The Anglo Far-East Company, an international gold and silver trading and custodial company and
- Founding member of the Panama Association of International Precious Metals Dealers.

Mr Judge has not served as a director of any Australian listed entity in the last three years.

2. Company Secretaries

The following persons jointly held the position of company secretary at the end of the financial year:

Janine Rolfe (BEc, LLB (Hons)) is a corporate lawyer specialising in company secretarial services, She is the company secretary of two other ASX listed entities: Tishman Speyer Office Fund and WDS Limited. Janine is also company secretary of the charitable body, Qantas Foundation Trustee Limited.

Swapna Keskar (MCom, LLB) is a company secretary of a number of unlisted entities and is a member of Chartered Secretaries Australia, The Institute of Company Secretaries and Administrators, UK and the Institute of Company Secretaries of India.

3. Principal Activities

The principal activities of the Consolidated Group during the year under review were acquiring, exploring and developing oil and gas prospects in the United States of America. There have been no changes in the nature of these activities during the year.

4. Review of Operations and State of Affairs

A review of, and information about, the Consolidated Group's operations, including the results of those operations and changes in its state of affairs during the year together with the information about the financial position of the Consolidated Group appears in the 2008 Annual Report. There are no other significant changes in the state of affairs of the Consolidated Group.

5. Events Subsequent to Reporting Date

Other than the matters discussed below, in the opinion of the directors, there has not arisen in the interval between the end of the financial year and the date of the report any matter or circumstance that has significantly affected, or may significantly affect the Consolidated Group's operations, results or the state of affairs in future financial years:

- As announced to the ASX on 6 February 2009, Pryme has taken a 25% working interest (18.75%- 20% net revenue interest) in the Four Rivers Project.

6. Likely Developments

The Consolidated Group intends to continue its principal activities of acquiring, exploring and developing oil and gas prospects in the United States of America. The strategies and objectives of the Consolidated Group are reviewed and discussed in greater detail in the 2008 Annual Report.

Certain information about the likely developments in, and expected results of, the operations of the Consolidated Group in future years, the strategies of the Consolidated Group and its prospects for future financial years has been omitted from this Directors' Report because disclosure of the information is likely to result in unreasonable prejudice to the implementation and execution of the Consolidated Group's business strategies.

7. Environmental Regulations and Performance

The Consolidated Group has various permits and licenses to operate in the United States of America.

There have been no significant known breaches of the Consolidated Group's licence or permit conditions. Furthermore, no government agency has notified the Consolidated Group of any environmental breaches during the period ended 31 December 2008.

8. Dividends

No dividend was paid, recommended for payment or declared during the year under review.

9. Options and Rights

Since the end of the financial year, Pryme has not granted options over unissued ordinary shares.

Unissued Shares Under Option

As at the date of this Report, unissued ordinary shares of Pryme under option are:

Expiry date	Number of options	Exercise Price ($)
30 June 2009	2,118,000	0.20
31 December 2009	500,000	0.40
Total	**2,618,000**	

Generally, there are no participating rights or entitlements inherent in the options and optionholders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options.

In the event of any reorganisation (including consolidation, sub-division, reduction or return) of the issued capital of Pryme, before the expiry of any options, the number of options to which an optionholder is entitled or the exercise price of the options or both will be reconstructed as appropriate in accordance with the Listing Rules.

Outstanding Incentives

As at the date of this Report, there were 2,118,000 Options outstanding under the Pryme Directors' Incentive Option Plan (DIOP). The options have vested pursuant to the achievement of certain performance hurdles as set out in Note 5(e) of the Notes to the Financial Statements and are eligible to be exercised prior to 30 June 2009.

As announced to the ASX on 28 February 2008, John Dickinson, Justin Pettett and Ryan Messer advised the Board that they had voluntarily relinquished 7,500,000 options granted under the DIOP with these options lapsing effective 31 December 2007. In addition, as announced to the ASX on 26 June 2008, Messrs Dickinson, Pettett and Messer advised the Board that they had voluntarily relinquished 6,591,000 options granted under the DIOP and 3,380,000 rights under the Directors' Share Incentive Plan (DSIP).

Following approval by shareholders on 5 March 2008, and as an incentive attaching to his Non-Executive Chairmanship, George Lloyd was issued 500,000 options with an exercise price of $0.40 and an expiry date of 31 December 2009.

Shares issued on exercise of options

During or since the end of the financial year, ordinary shares issued as result of exercise of options are:

Date	Number of shares	Exercise Price ($)
24 January 2008	75,000	0.20
2 July 2008	2,575,000	0.20
3 July 2008	1,100	0.40
Total	**2,651,100**	

All shares issued as a result of exercise of options are fully paid.

10. Directors' Meetings

The number of meetings of the Board and of each Board Committee held during the year (while each Director was a Director or committee member) and the number of meetings attended by each director are set out below:

	Board Of Directors		Audit Committee (#)		Remuneration Committee(##)	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
George Lloyd	12	12	2	2	1	1
John Dickinson	5	4	1	1	-	-
Justin Pettett	12	12	2 (#)	2 (#)	n/a	n/a
Ryan Messer	12	12	2 (#)	2 (#)	n/a	n/a
Ananda Kathiravelu	12	12	2	2	1	1
Philip Judge	-	-	-	-	-	-

Committee comprises Non-Executive Directors, although Executive Directors are invited to attend Audit Committee Meetings.
Committee comprises Non-Executive Directors.

11. Directors' Interests

Particulars of directors' interests in securities as at 31 December 2008 are as follows:

Director	Ordinary Shares	Options over Ordinary Shares[1] (DIOP)		American Depository Receipts
		$ 0.20	$0.40	
John Dickinson	1,700,000	759,000[2]	-	-
Justin Pettett	2,815,000	600,000[2]	-	-
Ryan Messer	1,906,925	759,000[2]	-	1,110[3]
Ananda Kathiravelu	75,000	-	-	-
Philip Judge	4,565,163	-	-	-
George Lloyd	1,350,000	-	500,000	-

[1]Further information on Options granted to directors as part of their remuneration is set out in Note 5 of the Financial Statements.

[2] These vested options are available to be exercised prior to 30 June 2009.

[3]Equivalent to 11,100 ordinary shares.

Other than as stated above in relation to options and, subject to Shareholder approval at the 2008 AGM, the proposed awards under the Pryme Oil & Gas Long-Term Inventive Plan, there are no contracts to which a director is a party or under which a director is entitled to a benefit that confer a right for the director to call for shares in Pryme.

12. Indemnification and Insurance of Officers and Auditors

Directors, executives and the company secretaries are indemnified by Pryme against any liability incurred in their capacity as an officer of Pryme or a related body corporate to the maximum extent permitted by law. Pryme has not paid any premiums in respect of any contract insuring the directors of Pryme against a liability for legal costs.

Ryan Messer, in his capacity as an employee and director of Pryme Oil and Gas Inc, is indemnified in circumstances where he is called on to provide a personal guarantee of commitments by the Company provided that the commitment of the Company or Subsidiary was incurred with the written approval of Pryme.

Pryme has not paid any premiums in respect of any contract insuring its auditor against a liability incurred in that role as an auditor of Pryme. In respect of non-audit services, Moore Stephens, Pryme's auditor has the benefit of an indemnity to the extent Moore Stephens reasonably relies on information provided by Pryme which is false, misleading or incomplete. No amount has been paid under this indemnity during the financial year ending 31 December 2008 or to the date of this Report.

13. Non-Audit Services

Details of the amounts paid to Moore Stephens as the auditor of Pryme for audit and non-audit services provided during the year are set out in Note 6 to the financial statements. The directors are satisfied that:

(a) the non-audit services provided during the financial year by Moore Stephens as the external auditor were compatible with the general standard of independence for auditors imposed by the Corporations Act; and

(b) any non-audit services provided during the financial year by Moore Stephens as the external auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

    i. Moore Stephens' services have not involved partners or staff acting in a managerial or decision making capacity within Pryme or in the processing or originating of transactions; and
    ii. the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The auditor's independence declaration under section 307C of the Corporations Act is set out on page 23 and forms a part of the Annual Financial Report for the year ended 31 December 2008.

14. Proceedings on behalf of the Consolidated Group

During the year under review and in the interval between the end of the financial year and the date of the report, the Consolidated Group has made no application for leave under section 237 of the Corporations Act.

15. Remuneration Report (Audited)

The directors of Pryme present the Remuneration Report prepared in accordance with Section 300A of the Corporations Act, Accounting Standard AASB 124 *Related Party Disclosures* and Principle 8 of the ASX Corporate Governance Principles and Recommendations.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act. This remuneration report forms part of the Directors' Report.

<u>Remuneration Policies and Practices</u>

In relation to remuneration issues, the Remuneration Committee and the Board regularly review the remuneration policies and practices of Pryme to ensure that it remunerates fairly and responsibly. The remuneration policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain talented and motivated directors and employees.

<u>Executive Remuneration Philosophy</u>

At Pryme, Executive Remuneration consists of:

- Total Remuneration (TR) = Fixed Remuneration (FR) + Short Term Incentive (STI) + Long Term Incentive (LTI).
- STI and LTI are the 'at risk' portions of remuneration.
- STI is paid in cash and reflects the achievement of a number of short term goals established on an annual basis.
- LTI is delivered in an equity award(s) which is granted upon the satisfaction of performance conditions/key performance drivers which underpin long term sustainable growth for the Company.
- The Board may also determine to pay a bonus in cash in circumstances of outstanding performance not otherwise appropriately rewarded.
- The Remuneration Committee will review the structure of at risk remuneration from time to time and report to the board. Such a review may include, but not be limited to changing the proportion of Total Remuneration which is at risk, the payment of Short Term and Long Term Incentives and the proportion of the at risk remuneration between Short Term and Long Term Incentive.

<u>Total Reward Mix</u>

The proportion of Total Remuneration at risk is related to the agreement on remuneration struck between the Company and the executive, the Company's expectations of executive performance and the executive's position in the Company. The proportion of FR will generally not change on a year to year basis but may reviewed and modified by the Board.

The mix of STI and LTI offered to executives will depend on their position in the Company. Generally LTI will only be available to the senior executive team; STI may be made available to employees below the senior executive team.

As a general guideline, for members of the senior executive team who receive both STI and LTI, the maximum proportion of at risk remuneration that may be payable as STI is 40%.

<u>Fixed Remuneration</u>

Fixed Remuneration (including the 9% superannuation levy payable as employer contribution (where applicable)) is set with reference to market data, reflecting the scope of the role and the performance of the person in the role.

At-Risk Remuneration

Clear and focused performance targets for management are critical to the success of the Company.

STI

- STI is paid in cash and reflects the achievement of a number of short term goals established on an annual basis.

LTI

- LTI is delivered in an equity based award(s) which is granted upon the satisfaction of performance conditions/key performance drivers which underpin long term sustainable growth for the Company.
- LTI is the key tool to allow the Company to attract and retain talented executives and ensure the interests of executives are aligned with those of Shareholders in creating long-term Shareholder value.

The proposed LTI scheme for Pryme will be the grant of equity in the form of performance rights (PRs) which are subject to the achievement of a dual performance measure (for US residents Restricted Stock Units (RSU), which have similar value characteristics). Typically such a performance measure would be based on achieved levels of growth of Total Shareholder Return (TSR) & earnings per share (EPS). However, in Pryme's case, at least for the short to medium term, it is considered that the annual growth of Total Shareholder Return and the annual growth of oil & gas sales per share 'SPS' (expressed as barrels of oil equivalent 'BOE' per share, where the oil equivalent of natural gas is determined on a value basis rather than the more conventional energy basis) are more appropriate measures of performance.

Further details, including proposed vesting conditions in relation to the inaugural award under the LTI scheme, are set out in the 2009 Notice of Meeting.

Non-Executive Director Remuneration

The Non-Executive Directors are remunerated distinctive from the Executive Directors.

Fees

Non-executive director fees are determined within an aggregate directors' fee pool limit, which will be periodically approved by shareholders in general meeting. The current limit is $300,000. During the year ended 31 December 2008, $236,532 of the fee pool was used.

Upon shareholder approval at the Annual General Meeting held on 5 March 2008, Mr Lloyd was issued 500,000 options. This was a unique award to Mr Lloyd in anticipation of his contribution as the incoming Chairman of the Company. These options are exercisable at 40 cents each on or before 31 December 2009. Upon exercise, these options will convert to listed shares in Pryme on a one-for-one basis.

Equity Participation

Generally, non-executive Directors are not entitled to participate in any equity based remuneration schemes.

Retirement Benefits

Non-executive directors do not receive retirement benefits.

Superannuation

Where applicable, Pryme pays Australian resident non-executive directors the statutory superannuation guarantee contribution.

<u>Relationship between Policy and Pryme's Performance - audited</u>

The Board believes that remuneration arrangements for employees should incorporate an "at-risk" component which is performance related to incentivise and reward employees for the achievement of goals which contribute to shareholder wealth.

Previously, Pryme's remuneration arrangement comprised the award of share options which would vest over time subject to the achievement of goals over a number of years. This proved to be a significant impost on the Company's financial performance with no identifiable benefit to shareholders. The hurdles established as vesting conditions in respect of previous awards became distinct from the Company's strategies and unattainable targets no longer act as an incentive. During the year all unvested option entitlements and all rights entitlements under the initial remuneration philosophy were voluntarily relinquished by Messrs Pettett and Messer. As such, it is difficult to continue to identify the relationship between the prior remuneration philosophy and Pryme's performance.

The Remuneration & Nomination Committee (Committee) identified the need for revised at-risk remuneration arrangements (these arrangements are to be considered by Shareholders at the 2009 Annual General Meeting). In formulating the proposed scheme, the Committee considered the appropriate elements of incentive plan design and canvassed market practice. The proposed scheme, the Pryme Oil and Gas Limited Long Term Incentive Plan (Plan), is designed to put a portion of executive remuneration "at-risk" and provide reasonable levels of incentives to key executives to encourage and reward performance that adds value to the Company for all Shareholders.

Specifically, the value to Shareholders will be readily measurable only if targets that align to Pryme's strategy are met. Under the FY2009 Award, there will be two hurdles which test Pryme's relative production growth and the attainment of a total shareholder return comparable with the energy sector (Performance Conditions). The Board considered it appropriate to have a dual test since:

- growth in production (represented by growth in annual sales per year of oil and gas) rewards achievement against Board approved targets/plan, converting opportunity into a revenue stream for the Company. The target is within management's influence, thereby focusing executives on Pryme's key business drivers; while
- growth in total shareholder return (TSR) component provides an additional challenging test (where reward is only delivered for strengthening Pryme's position comparable the S&P/ASX Energy Index) which has the benefit of transparency and is directly related to the return to shareholders through ownership of Pryme shares relative to the returns from the S&P/ASX Energy Index.

The Board believes that the dual tests, if achieved, will demonstrably aid the creation of shareholder value.

Each Performance Condition is weighted evenly and details are as follows:

Production Target (For which the award of up to 50% of the Total Available Incentive may be granted)		**Total Shareholder Return Target (For which the award of up to 50% of the Total Available Incentive may be granted)**	
Growth in Oil and Gas Sales Per Share	**Portion of Available Incentives to be Granted**	**Growth in TSR**	**Portion of Available Incentives to be Granted**
< 30% above previous year	Nil	< Energy Index growth	0
30% above previous year	40%	Equal to Energy Index growth	50%
> 30% and < 50% above previous year	An additional 1% for each 1% increment	Between 1 and 1.5 times Energy Index growth	1% for each 0.2 times increase in Energy Index over 1
50% or more above previous year	100%	> 1.5 times Energy Index growth	100%

A second hurdle that must be met as a precondition to vesting of Incentives is continued employment with Pryme as set out below. This time scale recognises the need to incentivise top tier management in the medium-term (and acknowledges the tight labour conditions) and also achieves the longer-term objective of retaining the individuals who are key to executing Pryme's strategies.

Time	Available Incentives to Vest
Base Date + 1 years (1 Jan 2011)	50%
Base Date + 2 years (1 Jan 2012)	50%

Anti-Hedging Policy

No Pryme personnel is permitted to enter into transactions with securities (or any derivative thereof) which limit the economic risk of any unvested entitlements awarded under an Pryme equity-based remuneration scheme.

As part of Pryme's due diligence undertaken at the time of half-year and full-year results, Pryme equity plan participants are required to confirm that they have not entered into any such prohibited transactions.

Continuous Improvement

Pryme will continually review all elements of its remuneration philosophy to ensure that they are appropriate from the perspectives of governance, disclosure, reward and market conditions.

REMUNERATION SUMMARY

	SHORT TERM				POST EMPLOYMENT		EQUITY BASED PAYMENTS [1]		TOTAL	Proportion of Remuneration Performance Related	Value of Options as Proportion of Remuneration
	CASH, SALARY & FEES	CASH PROFIT SHARE	NON-CASH BENEFIT	TOTAL	SUPER-ANNUATION	LONG TERM BENEFITS	OPTIONS	RIGHTS			
	$	$	$	$	$		$	$	$	%	%
Non-Executive Directors											
GEORGE LLOYD (CHAIRMAN)											
2008	-	-	-	-	**-**	-	67,500		67,500	**-**	-
2007	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**-**	-
JOHN DICKINSON											
2008	32,792			**32,792**	-	-	106,060	98,735	**237,587**	86	45
2007	104,311	-	-	**104,311**	-	-	291,000	267,890	**663,201**	84	44
ANANDA KATHIRAVELU											
2008	81,795	-	-	**81,795**	7,362	-	-	-	**89,157**	-	-
2007	81,795	-	-	**81,795**	7,362	-	-	-	**89,157**	-	-
PHILIP JUDGE											
2008	-	-	-	**-**	-	-	-	-	**-**	-	-
2007	-	-	-	**-**	-	-	-	-	**-**	-	-

Executives											
JUSTIN PETTETT Managing Director											
2008	296,535			**296,535**	25,388		223,000	207,600	**752,523**	57	30
2007	296,556	-	-	**296,556**	26,619	-	448,000	413,200	**1,184,375**	73	36
RYAN MESSER Chief Operating Officer											
2008	269,161	-	-	**269,161**	-		127,271	118,482	**514,914**	48	25
2007	205,251	-	-	**205,251**	-		291,000	267,890	**764,141**	73	38
SANDRA GAFFNEY Group Financial Controller											
2008	15,000	-	-	**15,000**	1,350	-	-	-	**16,350**		
2007	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a		
TOTAL											
2008	**695,283**	**-**	**-**	**695,283**	**34,100**	**-**	**523,831**	**424,817**	**1,678,031**	-	-
2007	**687,913**	**-**	**-**	**687,913**	**33,981**	**-**	**1,030,000**	**948,980**	**2,700,874**	-	-

Total Directors ' remuneration of $1,678,031 (2007: $2,700,874) comprises of $729,383 (2007: $721,894) which was paid in cash or cash equivalents to directors and an amount of $948,648 (2007: $1,978,980) which is attributable to the expensing of the Directors' Incentive Option Plan (DIOP) and Directors' Share Incentive Plan (DSIP) in accordance with Australian Accounting Standard AASB2 – Share-based payment (AASB 2). AASB2 requires securities (rights and options in case of Pryme) to be expensed over the performance period of the security, from the date of the grant and despite the fact that attaching transparent performance hurdles are yet to be achieved. In the case of DIOP, no further performance hurdles were attained in 2008. During the 2008 financial year, all outstanding options and rights were relinquished by the directors. In accordance with AASB2, all related amounts were reversed in the Group's financial report by adjustment to the retained earnings via the Statement of Changes in Equity.

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION - UNAUDITED

During the financial year, there were no short term incentive bonuses awarded to any key management personnel as part of their compensation.

FAIR VALUE OF OPTIONS – FACTORS AND ASSUMPTIONS - AUDITED

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date		Expiry Date	Fair Value per option ($)	Exercise Price ($)	Price of shares on grant date ($)	Estimated volatility (%)	Risk free interest rate (%)	Dividend yield (%)
31.07.06	Tranche 1	30.06.09	0.1784	0.20	0.73	75	5.695	0
31.07.06	Tranche 2	30.06.09	0.1784	0.20	0.73	75	5.695	0
31.07.06	Tranche 3	30.06.09	0.1784	0.20	0.73	75	5.695	0
06.03.08	Chairman	31.12.09	0.1350	0.40	0.275	111.5	6.51	0

During the year 500,000 options with an exercise price of $0.40 and an expiry date of 31 December 2009 were issued upon the appointment of Mr George Lloyd as a Non Executive Director and Chairman of the Board. No options have been granted since the end of the financial year.

On 20 April 2007, 2,618,000 options under the DIOP vested and became exercisable. As at 31 December 2008, 500,000 had been exercised. The remaining 2,118,000 options under the DIOP are exercisable until 30 June 2009.

The options in respect of Tranche 2 and 3, originally exercisable until 30 June 2009, were voluntarily relinquished by the directors during 2008.

If any of the recipients cease to be a director of Pryme, the recipient is entitled to retain any Options that have vested and not yet been exercised pursuant to the DIOP.

FAIR VALUE OF SHARES – FACTORS AND ASSUMPTIONS - AUDITED

The following factors and assumptions were used in determining the fair value of DSIP securities on allocation date:

Director	Share Allocation	Fair Value Per Share ($)
John Dickinson	1,380,000	0.63
Justin Pettett	2,000,000	0.63
Ryan Messer	1,380,000	0.63

The fair value of the deferred shares is based on the market value of Pryme shares on the allocation date, which is the date of shareholder approval at general meeting (20 July 2006). The fair value is expensed over the vesting period of the DSIP securities, such vesting period being 1 July 2006 – 30 June 2009 (inclusive).

During 2008, rights under the DSIP were voluntarily relinquished by Messrs Pettett and Messer and lapsed in respect of Mr Dickinson pursuant to his resignation as a director.

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION – AUDITED

Details of entitlements to options over ordinary shares in Pryme that were granted to key management personnel as compensation during the reporting period and details on options that vested during the reporting period are as follows:

Name	Year	Held at the beginning of the year	Granted as Remuneration	Exercised	Voluntarily Relinquished	Lapsed	Held at the end of the Financial year	Vested during the year	Vested and exercisable as at 31 December 2008
Executive Directors									
Justin Pettett	2008	4,500,000	-	-	(3,900,000)	-	600,000	-	600,000
	2007	5,000,000[1]	-	500,000		-	4,500,000	1,100,000	600,000
Ryan Messer	2008	3,450,000	-	-	(2,691,000)		759,000	-	759,000
	2007	3,450,000[1]	-	-		-	3,450,000	759,000	759,000
Non – Executive Directors									
John Dickinson	2008	3,450,000	-	-	-	(2,691,000)	-	-	759,000
	2007	3,450,000[1]	-	-		3,450,000	3,450,000	759,000	759,000
Ananda Kathiravelu	2008	-	-	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-	-
Philip Judge	2008	-	-	-	-	-	-	-	-
	2007	-	-	-		-	-	-	-
George Lloyd	2008	-	500,000	-	-	-	500,000	500,000	500,000
	2007	-	-	-		-	-	-	-

[1] The initial entitlement to options arose on 31 July 2006. The directors voluntarily relinquished all outstanding options during 2008. The remaining vested options are available to be exercised until 30 June 2009 with an exercise price of $0.20 and a fair value of $0.1784 per option. These options vested pursuant to performance hurdles being attained.

As at 31 December 2008, there were no vested and un-exercisable options as under the rules of the DIOP, all vested options may be exercised.

EXERCISE OF OPTIONS GRANTED AS COMPENSATION – AUDITED

During the reporting period, no shares were issued to key management personnel on the exercise of options previously granted as compensation.

ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION – UNAUDITED

Details of the vesting profile of the entitlement to options granted as remuneration to each of the non-executive and executive directors are set out on the below:

	Entitlement to Options to be granted					**Value yet to vest**	
	Number	Date	% vested in year	% forfeited/ voluntarily relinquished in year[1]	Financial year in which grant vests	Min ($)	Max ($)
Executive Directors							
Justin Pettett	1,100,000	31.07.06	-	-	31.12.07	n/a	n/a
	2,150,000	31.07.06	-	100%	31.12.09	-[2]	-[3]
	1,750,000	31.07.06	-	100%	31.12.09	-[2]	-[3]
Ryan Messer	759,000	31.07.06	-	-	31.12.07	n/a	n/a
	1,483,500	31.07.06	-	100%	31.12.09	-[2]	-[3]
	1,207,500	31.07.06	-	100%	31.12.09	-[2]	-[3]
Non – Executive Directors							
John Dickinson	759,000	31.07.06	-	-	31.12.07	n/a	n/a
	1,483,500	31.07.06	-	100%	31.12.09	-[2]	-[3]
	1,207,500	31.07.06	-	100%	31.12.09	-[2]	-[3]
Ananda Kathiravelu	-	-	-	-	-	-	
Philip Judge	-	-	-	-	-	-	-
George Lloyd	500,000	-	100%	-	31.12.08	-	-

[1]The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to the options being voluntarily relinquished by Messrs Pettett and Messer and lapsing in respect of Mr Dickinson pursuant to his resignation as a director.

[2]The minimum value of options yet to vest is $nil as the options have been voluntarily relinquished/lapsed.

[3]The maximum value of options yet to vest is $nil as the options have been voluntarily relinquished/lapsed.

ANALYSIS OF MOVEMENTS ON OPTIONS – UNAUDITED

The movement during the reporting period, by total number of entitlement to options over ordinary shares in Pryme held by key management personnel is detailed below:

	Year	Entitlement to Options granted in year $[1]	Exercised in Year $[2]	Forfeited in Year $[3]	Total Option Value in Year $
Executive Directors					
Justin Pettett	2008	-	-	695,760	(695,760)
	2007	-	97,500	-	-
Ryan Messer	2008	-	-	480,074	(480,074)
	2007	-	-	-	1,092,320
Non – Executive Directors					
John Dickinson	2008	-	-	480,074	(480,074)
	2007	-	-	-	546,160
Ananda Kathiravelu	2008	-	-	-	-
	2007	-	-	-	-
Philip Judge	2008	-	-	-	-
	2007	-	-	-	-
George Lloyd	2008	67,500	67,500	-	67,500
	2007	-	-	-	-

[1] The value of the entitlement to options grants in the year is the fair value of the options calculated at grant date using a Black-Scholes Merton pricing model.

[3] The value of options exercised during the year is calculated as the market price of shares of Pryme on the ASX as at the close of trading on the date the Options were exercised after deducting the price paid to exercise the Options.

[3] The value of the options forfeited in the year is the fair value of the options calculated at grant date using a Black-Scholes Merton pricing model.

SUMMARY OF KEY CONTRACTS TERMS – AUDITED

The key contract and other terms of the executive directors are set out below:

Contract Details	Justin Pettett	Ryan Messer
Duration of contract	Three Years (commencing from 31 May 2007). The term of the Executive Employment Agreement may be extended for a further three years.	Three Years (commencing from 26 June 2006). The term of the Executive Employment Agreement may be extended for a further three years.
Termination notice period and payments	**Termination by Pryme with reason:** (a) By giving 3 months written notice if the MD is incapacitated by illness or injury which prevents the MD from performing his duties for 9 months (consecutive or aggregate in any 12 months) or become of unsound mind or becomes under the control of a committee or officer under the law	**Termination by Pryme with reason:** (a) By giving 3 months written notice if the COO is incapacitated by illness or injury which prevents the COO from performing his duties for 9 months (consecutive or aggregate in any 12 months) or become of unsound mind or becomes under the control of a committee or officer under the law

	relating to mental health. The notice period can be disposed of by paying 12 months salary. (b) By giving 3 months written notice if: 1. the MD commits an serious or persistent breach of the Executive Services Agreement not remedied within 14 days; 2. the MD demonstrates incompetence and does not perform his duties and the MD has been given reasonable opportunity to remedy the specific issues following each occasion; 3. the MD commits or is guilty of Gross Misconduct; 4. the MD refuses or neglects to comply with any lawful reasonable direction by Pryme which is not rectified within 21 business days of receipt of notice. The notice period can be disposed of by paying 12 months salary. (c) Without notice if the MD is convicted on any major criminal offence which brings Pryme into lasting disrepute, by giving notice effective immediately and without payment of any salary other than salary accrued to that date. **Termination by Pryme without reason:** 3 months written notice and making payment of 9 months salary after the expiry of the notice period. Notice period can be dispensed with and payment of 12 months salary made. **Termination by the MD:** (a) If Pryme commits a	relating to mental health. The notice period can be disposed of by paying 3 months salary. (b) By giving 1 months written notice if: 1. the COO commits an serious or persistent breach of the Executive Services Agreement not remedied within 14 days; 2. the COO demonstrates incompetence and does not perform his duties and the COO has been given reasonable opportunity to remedy the specific issues following each occasion; 3. the COO commits or is guilty of Gross Misconduct; 4. the COO refuses or neglect`s to comply with any lawful reasonable direction by Pryme which is not rectified within 21 business days of receipt of notice. The notice period can be disposed of by paying 6 months salary. (c) Without notice if the COO is convicted with any major criminal offence which brings Pryme or any of its Related Bodies Corporate into lasting disrepute, by giving notice effective immediately and without payment of any salary other than salary accrued to the date of termination. **Termination by Pryme without reason:** 6 months written notice. Notice period can be dispensed with and 6 months salary made (or pro-rata having regard to the remaining notice period).

	serious or persistent breach of the Executive Services Agreement and not remedied within 28 days of receipt of notice, by giving notice effective immediately; (b) By giving 3 months written notice. **Annual Leave payment:** On termination the MD is entitled to payment in lieu of the annual leave owing to him.	**Termination by the COO:** (a) If Pryme commits a serious or persistent breach of the Executive Services Agreement and not remedied within 28 days of receipt of notice, by giving notice effective immediately; (b) By giving 6 months written notice. **Annual Leave payment:** On termination the COO is entitled to payment in lieu of the annual leave owing to him.

The Executive Service Agreements with both the Managing Director and the Chief Operating Officer are being reviewed by the Remuneration & Nomination Committee. Amended key terms will be described in the 2009 Annual Report.

16. Corporate Governance

The directors aspire to maintain the highest possible standards of Corporate Governance. Pryme's Corporate Governance Statement is contained in the Annual Report.

This report is signed in accordance with a resolution of the directors.

Justin Pettett
Managing Director
Brisbane, Queensland

26 February 2009

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PRYME OIL & GAS LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2008 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Moore Stephens

Moore Stephens

MJ McDonald
Director

Date 17th February 2009

Brisbane, Queensland

INCOME STATEMENT
FOR YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
Revenue	2	3,213,831	1,698,296	809,512	673,578
Accounting and Audit Fees		(303,245)	(268,900)	(120,936)	(160,876)
Depreciation and amortisation expenses and write offs	3	(2,043,642)	(650,925)	(2,965)	(3,253)
Directors Remuneration	5(a)	(684,824)	(721,894)	(382,871)	(412,332)
Directors Remuneration – DIOP and DSIP	5(a)	(948,648)	(1,978,980)	(498,102)	(861,200)
Employee benefits expense		(88,904)	(64,488)	(57,424)	(24,933)
Legal Expenses		(38,946)	(88,424)	(24,644)	(88,686)
Production Costs		(607,833)	(392,819)	-	-
Professional Consulting Fees		(454,965)	(212,442)	(277,284)	-
Share Registry and Listing Costs		(36,864)	(53,363)	(36,864)	(47,442)
Travel and Accommodation Expenses		(199,686)	(338,452)	(128,494)	(255,491)
Other expenses		(277,393)	(270,856)	(92,864)	(148,315)
Share of net profits of associates and joint ventures		(17,895)	(18,724)	-	-
Loss before income tax	3	(2,489,014)	(3,361,971)	(812,936)	(1,328,950)
Income tax expense	4	-	-	-	-
Net Loss attributable to members of the parent entity		(2,489,014)	(3,361,971)	(812,936)	(1,328,950)
Overall Operations					
Basic earnings per share (cents per share)	7	(2.3)	(3.6)		
Diluted earnings per share (cents per share)	7	(1.9)	(2.3)		

The accompanying notes for part of these financial statements

BALANCE SHEET
AS AT 31 DECEMBER 2008

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	2,963,925	1,854,713	2,823,586	1,746,107
Trade and other receivables	9	643,475	350,379	19,661	121,723
Other current assets		60,970	-	-	-
TOTAL CURRENT ASSETS		3,668,370	2,205,092	2,843,247	1,867,830
NON-CURRENT ASSETS					
Trade and other receivables	9	-	-	26,204,219	22,526,696
Investments accounted for using the equity method	10	10,369,973	6,308,229	-	-
Property, plant and equipment	12	27,757	5,826	9,970	5,826
Working Interest	14	15,947,838	11,262,436	-	-
Other non-current assets		-	-	-	114
TOTAL NON-CURRENT ASSETS		26,345,568	17,576,491	26,214,189	22,532,636
TOTAL ASSETS		30,013,938	19,781,583	29,057,436	24,400,466
CURRENT LIABILITIES					
Trade and other payables	15	393,227	1,115,634	66,755	187,667
TOTAL CURRENT LIABILITIES		393,227	1,115,634	66,755	187,667
TOTAL LIABILITIES		393,227	1,115,634	66,755	187,667
NET ASSETS		29,620,711	18,665,949	28,990,681	24,212,799
EQUITY					
Issued capital	16	29,902,450	21,508,685	29,902,450	21,508,685
Reserves		3,831,874	2,566,850	445,351	4,865,948
Accumulated losses		(4,113,613)	(5,409,586)	(1,357,120)	(2,161,834)
TOTAL EQUITY		29,620,711	18,665,949	28,990,681	24,212,799

The accompanying notes for part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2008

	Note	Ordinary Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Options Reserve	Total
Consolidated Group		$	$	$	$	$
Balance at 1 January 2007		14,952,733	(2,047,615)	(610,656)	2,702,667	14,997,129
Loss for the year		-	(3,361,971)	-	-	(3,361,971)
Shares issued during the year	16	6,929,500	-	-	-	6,929,500
Share capital raising cost		(373,548)	-	-	-	(373,548)
Adjustments from translation of foreign controlled entities		-	-	(1,688,442)	-	(1,688,442)
Options issued during the year		-	-	-	2,163,281	2,163,281
Balance at 31 December 2007		21,508,685	(5,409,586)	(2,299,098)	4,865,948	18,665,949
Loss for the year		-	(2,489,014)	-	-	(2,489,014)
Shares issued during the year	16	7,133,809	-	-	-	7,133,809
Share capital raising cost		(406,069)	-	-	-	(406,069)
Adjustments from translation of foreign controlled entities		-	2,288	5,685,621	-	5,687,909
Transfer borrowing costs options not exercised		468,300	-	-	(468,300)	-
Transfers options not exercised		1,197,725	-	-	(1,197,725)	-
Transfers from retained earnings		-	3,782,699	-	(3,782,699)	-
Options issued during the year		-	-	-	1,028,127	1,028,127
Balance at 31 December 2008		**29,902,450**	**(4,113,613)**	**3,386,523**	**445,351**	**29,620,711**
Parent Entity						
Balance at 1 January 2007		14,952,733	(832,884)	-	2,702,667	16,822,516
Loss for the year		-	(1,328,950)	-	-	(1,328,950)
Shares issued during the year	16	6,929,500	-	-	-	6,929,500
Share capital raising cost		(373,548)	-	-	-	(373,548)
Options issued during the year		-	-	-	2,163,281	2,163,281
Balance at 31 December 2007		21,508,685	(2,161,834)	-	4,865,948	24,212,799
Loss for the year		-	(812,936)	-	-	(812,936)
Shares issued during the year	16	7,133,809	-	-	-	7,133,809
Share capital raising cost		(406,069)	-	-	-	(406,069)
Transfer borrowing costs options not exercised		468,300	-	-	(468,300)	-
Transfers options not exercised		1,197,725	-	-	(1,197,725)	-
Transfers from retained earnings *		-	1,617,650	-	(1,617,650)	-
Transfers to intercompany account *		-	-	-	(2,165,049)	(2,165,049)
Options issued during the year		-	-	-	1,028,127	1,208,127
Balance at 31 December 2008		**29,902,450**	**(1,357,120)**	**-**	**445,351**	**28,990,681**

* Transfers from the options reserve as a result of the relinquishing of options by Directors has resulted in a reversal of the applicable options expense in the holding company, and where applicable has been reflected in the intercompany balance for amounts previously passed on to wholly owned subsidiaries.

The accompanying notes for part of these financial statements

CASH FLOW STATEMENT
FOR YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		2,560,196	1,442,193	-	-
Interest received		327,439	133,950	327,466	133,950
Payments to suppliers and employees		(2,198,007)	(3,353,468)	(1,237,944)	(511,760)
Net cash provided by (used in) operating activities	21(a)	689,628	(1,777,325)	(910,478)	(377,810)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of working interest		860,007	-	-	-
Purchase of property, plant and equipment		(24,896)	(1,499)	(7,109)	(1,499)
Purchase of equity accounted investments		(2,663,312)	(3,196,167)	-	-
Payment for working interest		(4,632,798)	(4,411,077)	-	-
Net cash provided by (used in) investing activities		(6,460,997)	(7,608,743)	(7,109)	(1,499)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares (net of capital raising costs)		6,804,372	6,455,952	6,804,372	6,455,952
Loans Advanced		-	-	(4,809,306)	(8,646,981)
Net cash provided by (used in) financing activities		6,804,372	6,455,952	1,995,066	(2,191,029)
Net increase in cash held		1,003,003	(2,930,116)	1,077,479	(2,570,338)
Cash at beginning of financial year		1,854,713	4,784,829	1,746,107	4,316,445
Effect of exchange rate movement		76,209	-	-	-
Cash at end of financial year	8	2,963,925	1,854,713	2,823,586	1,746,107

The accompanying notes form part of these financial statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB")and the Corporations Act 2001.

This financial report covers the consolidated financial statements and notes of Pryme Oil and Gas Limited and controlled entities ('Consolidated Group' or 'Group') and Pryme Oil and Gas Limited as an individual parent ('Parent Entity'). Pryme Oil and Gas Limited is a listed public company, incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

Basis of Preparation

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity over which Pryme Oil and Gas Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 11 to the financial statements.

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

(b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of offset exists and it is intended net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of setoff exists, the deferred tax assets and liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liabilities will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Where applicable, increases in the carrying value arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the assets original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Office Equipment	25%

Office Equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

iii. *Held-to-maturity investments*

Held-to-maturity einvestments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post-acquisition reserves of its associates.

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(j) Employee Benefits

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled compensation

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(k) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(m) Revenue and Other Income

The group uses the sales method to account for sales of crude oil and natural gas revenues. Under this method, revenues are recognised based on volumes of oil and gas sold to purchasers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(n) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(o) Capital Raising Costs

All transaction costs on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key Estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

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Key Judgments — Provision for Impairment of Receivables

No key judgements were made during the year.

NOTE 2: REVENUE

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
Sales Revenue					
— Oil and gas revenue		2,886,365	1,564,346	-	-
Total Sales Revenue		2,886,365	1,564,346	-	-
Other Revenue					
— Interest from other persons		327,466	133,950	327,466	133,950
— Other revenue		-	-	482,046	539,628
Total Other Revenue		327,466	133,950	809,512	673,578
Total Sales Revenue and Other Revenue		3,213,831	1,698,296	809,512	673,578

NOTE 3: LOSS FOR THE YEAR

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
Expenses					
Production costs – oil and gas		607,833	392,819	-	-
Depreciation and amortisation		5,384	3,253	2,965	3,253
Depletion of working interest		1,083,514	647,672	-	-
Capitalised exploration expenditure write-off		954,744	-	-	-
Total Depreciation, amortisation and write-offs		2,043,642	650,925	2,965	3,253

NOTE 4: INCOME TAX EXPENSE

		Note	Consolidated Group		Parent Entity	
			2008 $	2007 $	2008 $	2007 $
a.	The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:					
	Prima facie tax payable on profit from ordinary activities before income tax at 30% (2007: 30%)					
	— consolidated group		(746,704)	(1,008,591)		
	— parent entity				(243,881)	(398,685)
	Add:					
	Tax effect of:					
	— other non-allowable items		18,657	56,840	14,390	53,599
	— Effect of current year tax losses derecognised		1,001,002	488,240	259,851	234,255
	— share options expensed during year		294,248	615,515	149,431	258,360
			567,203	152,004	179,791	147,499
	Less:					
	Tax effect of:					
	— tax deductible equity raising costs		135,601	124,894	135,601	124,894
	— tax deductible formation costs		-	-	-	-
	— Other tax deductible items		431,602	27,110	44,190	22,605
	Income tax attributable to entity		-	-	-	-
	The applicable weighted average effective tax rates are as follows:		0%	0%	0%	0%
b.	Deferred tax assets not brought to account:					
	- Temporary differences		357,643	400,183	357,643	381,098
	- Tax losses		1,894,127	815,632	674,353	327,392
			2,251,770	1,215,815	1,031,996	708,490

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

a. Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

Key Management Person	Position
Executive Directors	
Justin Pettett	Managing Director and Chief Executive Officer since 1 December 2005
Ryan Messer	Chief Operations Officer since 1 December 2005
Non Executive Directors	
John Dickinson	Director appointed 1 December 2005; Former Chairman and appointed Vice-Chairman 29 January 2008; resigned on 1 June 2008
Ananda Kathiravelu	Director since 1 December 2005
Philip Judge	Appointed Director on 25 September 2005; resigned on 29 January 2008
George Lloyd	Appointed Director and Chairman on 29 January 2008

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

b. Related Party Transaction – Key Management Personnel

Management consulting fees totalling $90,000 (2007: $Nil) were paid to an entity of which Mr J. Pettett is a beneficial shareholder and director and amounts totalling $44,199 (2007:$24,933) were paid to an associate of Mr J Pettett for accounting related services.

Amounts totalling $20,651 (2007: $19,771) were paid to an associate of Mr Messer for administration related services.

Directorship fees have been paid to an entity of which Mr G Lloyd is a beneficiary totalling $114,583 (2007: $Nil).

Consulting fees totalling $52,424 (2007: $Nil) were paid to John Dickinson subsequent to his resignation as a Director.

c. Options and Rights Holdings

(i) Number of Options Held by Key Management Personnel

2008	Balance 1.1.2008	Granted as Compensation	Exercised	Net Change Other*	Balance 31.12.2008	Vested during the year	Vested and Exercisable 31.12.2008	Total Unexercisable 31.12.2008
Justin Pettett	4,500,000	-	-	(3,900,000)	600,000	-	600,000	-
Ryan Messer	3,450,000	-	-	(2,691,000)	759,000	-	759,000	-
John Dickinson	3,450,000	-	-	(2,691,000)	759,000	-	759,000	-
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Phillip Judge	150,000	-	-	(150,000)	-	-	-	-
George Lloyd	-	500,000	-	-	500,000	500,000	500,000	-
Total	11,550,000	500,000	-	(9,432,000)	2,618,000	500,000	2,618,000	-

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

2007	Balance 1.1.2007	Granted as Compensation	Exercised	Net Change Other*	Balance 31.12.2007	Vested during the year	Vested and Exercisable 31.12.2007	Total Unexercisable 31.12.2007
Justin Pettett	5,000,000	-	(500,000)	-	4,500,000	1,100,000	600,000	-
Ryan Messer	3,450,000	-	-	-	3,450,000	759,000	759,000	-
John Dickinson	3,450,000	-	-	-	3,450,000	759,000	759,000	-
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Phillip Judge	-	150,000	-	-	150,000	150,000	150,000	-
George Lloyd	-	-	-	-	-	-	-	-
Total	11,900,000	150,000	(500,000)	-	11,550,000	2,768,000	2,268,000	-

(ii) Number of Rights Held by Key Management Personnel

2008	Balance 1.1.2008	Granted as Compensation	Exercised*	Net Change Other*	Balance 31.12.2008	Vested 31.12.2008	Exercisable 31.12.2008	Total Unexercisable 31.12.2008
Justin Pettett	2,000,000	-	-	(2,000,000)	-		-	**-**
Ryan Messer	1,380,000	-	-	(1,380,000)	-		-	**-**
John Dickinson	1,380,000	-	-	(1,380,000)	-		-	**-**
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Phillip Judge	-	-	-	-	-	-	-	-
George Lloyd	-	-	-	-	-	-	-	-
Total	4,760,000	-	-	(4,760,000)	-	-	-	-

2007	Balance 1.1.2007	Granted as Compensation	Exercised*	Net Change Other*	Balance 31.12.2007	Vested 31.12.2007	Exercisable 31.12.2007	Total Unexercisable 31.12.2007
Justin Pettett	2,000,000	-	-	-	2,000,000		-	2,000,000
Ryan Messer	1,380,000	-	-	-	1,380,000		-	1,380,000
John Dickinson	1,380,000	-	-	-	1,380,000		-	1,380,000
Ananda Kathiravelu	-	-	-	-	-	-	-	-
Phillip Judge	-	-	-	-	-	-	-	-
George Lloyd	-	-	-	-	-	-	-	-
Total	4,760,000	-	-	-	4,760,000	-	-	4,760,000

*The Net Change Other reflected above includes those options and rights that have been voluntarily relinquished or forfeited by holders during the year under review.

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

d. Shareholdings

2008	Balance 1.1.2008	Received as Compensation	Options Exercised	Net Change Other *	Balance 31.12.2008
Justin Pettett	2,315,000	-	-	500,000	2,815,000
Ryan Messer	1,700,000	-	-	206,925	1,906,925
John Dickinson	1,700,000	-	-	-	1,700,000
Ananda Kathiravelu	4,727,500	-	-	(4,652,500)	75,000
Phillip Judge	4,565,163	-	-	-	4,565,163
George Lloyd	-	-	-	1,350,000	1,350,000
Total	15,007,663	-	-	(2,595,575)	12,412,088

2007	Balance 1.1.2007	Received as Compensation	Options Exercised	Net Change Other *	Balance 31.12.2007
Justin Pettett	1,795,000	-	500,000	20,000	2,315,000
Ryan Messer	1,700,000	-	-	-	1,700,000
John Dickinson	1,700,000	-	-	-	1,700,000
Ananda Kathiravelu	4,727,500	-	-	-	4,727,500
Phillip Judge	4,514,163	-	-	51,000	4,565,163
George Lloyd	-	-	-	-	-
Total	14,436,663	-	500,000	71,000	15,007,663

* Net Change Other refers to shares purchased or sold during the financial year.

e. Share based payments

Directors Incentive Option Plan

Shareholders approved the introduction of the Directors' Incentive Option Plan (DIOP) at the 20 July 2006 General Meeting. Each option that may be granted under the DIOP entitles the director to acquire one ordinary share of Pryme Oil and Gas Limited. There are no voting or dividend rights attaching to the options until they are exercised by the director, at which point ordinary shares which rank equally with all other Pryme shares are issued and quoted on the ASX. The options cannot be transferred and will not be quoted on the ASX.

The terms and conditions of the entitlements are as follows:

Entitlement Date	No. of Options	Vesting Date	Vesting Conditions	Expiry Date/ Date of Relinquishment*	Original Life of Entitlement	Exercise Price
31.07.06	2,618,000	21.04.07	Note a	30.06.09	3 years	$0.20
31.07.06	5,117,000	Up to 30.06.09	Note b	26.06.08*	3 years	$0.20
31.07.06	4,165,000	Up to 30.06.09	Note c	26.06.08*	3 years	$0.20

Note a: These options vested during the 2007 financial year upon Pryme increasing annual net operating income in LaSalle Parish Project by 25% (to A$1,250,000 annually calculated monthly) within 12 months from the date of listing Pryme.

Note b: The options were to be granted upon the successful conclusion of the 3D data acquisition (receipt of field tapes) the evaluation thereof and the preparation from the 3D data of at least 10 drilling prospects in the Couth Central Louisiana seismic play and a total of 1,000,000 cubic feet per day (1,000Mcfd) or oil equivalent (where the oil equivalent is 6,000 cubic feet (6Mcf) equals 1 barrel of oil) net to Pryme is produced within the performance period.

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

Note c: The options were to be granted upon Pryme achieving and annualised EBIT of A$10,000,000 calculated monthly from the projects that Pryme is involved in within the performance period.

***As announced to the ASX on 26 June 2008, Messrs Dickinson, Pettett and Messer advised the Board that they had voluntarily relinquished all remaining options under the DIOP.**

In addition to the above options, upon shareholder approval at the Annual General Meeting held on 5 March 2008, Mr George Lloyd was issued 500,000 options. This was a unique award to Mr Lloyd in anticipation of his contribution as the incoming Chairman of the Company. These options are exercisable at 40 cents each on or before 31 December 2009.

The number and weighted average exercise price of share options is as follows:

	2008		**2007**	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding at the beginning of the year	11,400,000	$0.20	11,900,000	$0.20
Granted	500,000	$0.40	-	-
Forfeited	(9,282,000)	$0.20	-	-
Exercised	-	-	500,000	$0.20
Outstanding at year-end	2,618,000	$0.24	11,400,000	$0.20
Exercisable at year-end	2,618,000	$0.24	2,768,000	$0.20

The options outstanding at 31 December 2008 have a weighted average exercise price of $0.24 and a weighted average remaining contractual life of 0.6 years

Directors Share Incentive Plan

Shareholders approved the introduction of the Directors' Incentive Share at the 20 July 2006 General Meeting. During the 2008 financial year, all entitlements under the DSIP were voluntarily relinquished as follows:

	2008		**2007**	
	Number of Rights	**Weighted Average Exercise Price**	**Number of Rights**	**Weighted Average Exercise Price**
Outstanding at the beginning of the year	4,760,000	n/a	-	n/a
Granted	-	n/a	4,760,000	n/a
Forfeited	(4,760,000)	n/a	-	n/a
Exercised	-	n/a	-	n/a
Outstanding at year-end	-	n/a	4,760,000	n/a
Exercisable at year-end	-	n/a	-	n/a

During the year, no rights vested.

Payment for Leasing Costs

On 9 July 2008, 101,603 shares were issued to Mr. Larry Gilbert Hatcher as part consideration for a mineral lease in the Up-Dip Tuscaloosa Project. The shares are ordinary fully paid shares issued in settlement of leasing costs of $23,369 payable in relation to the Oil, Gas and Mineral Lease of specified acreage in the East Baton Rouge Parish. The number of shares issued was determined with reference to the closing price of shares ($0.23) on the day of issue.

NOTE 6: AUDITORS' REMUNERATION

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	84,498	60,600	84,498	60,600
— taxation services	4,750	32,700	4,750	32,700
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	102,718	60,677	-	-

NOTE 7: EARNINGS PER SHARE

		Consolidated Group	
		2008 $	2007 $
a.	Reconciliation of earnings to profit or loss		
	Loss	(2,489,014)	(3,361,971)
	Earnings used to calculate basic EPS	(2,489,014)	(3,361,971)
		No.	No.
b.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	106,359,384	92,124,977
	Weighted average number of options outstanding	26,730,813	51,962,500
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	133,090,197	144,087,477

NOTE 8: CASH AND CASH EQUIVALENTS

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
Cash at bank and in hand		212,026	224,607	71,687	116,001
Short-term bank deposits		2,751,899	1,630,106	2,751,899	1,630,106
		2,963,925	1,854,713	2,823,586	1,746,107

The effective interest rate on short-term bank deposits was 6.4% (2007: 6.6%).

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	2,963,925	1,854,713	2,823,586	1,746,107
	2,963,925	1,854,713	2,823,586	1,746,107

NOTE 9: TRADE AND OTHER RECEIVABLES

	Note	Consolidated Group		Parent Entity	
		2008	**2007**	**2008**	**2007**
		$	**$**	**$**	**$**
CURRENT					
Trade receivables		596,300	214,478	2,861	-
Provision for impairment of receivables		-	-	-	-
		596,300	214,478	2,861	-
Other receivables		-	14,178	-	-
Amounts receivable from:					
— key management personnel		30,375	100,000	-	100,000
— GST receivable		16,800	21,723	16,800	21,723
		643,475	350,379	19,661	121,723
NON-CURRENT					
Amounts receivable from:					
— wholly-owned entities		-	-	26,204,219	22,526,696
		-	-	26,204,219	22,526,696

There are no balances within trade and other receivables that contain assets that are impaired or are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

NOTE 10: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
Associated companies	10a	10,369,973	6,308,229	-	-
		10,369,973	6,308,229	-	-

Interests are held in the following associated unincorporated companies

Name	Principal Activities	Country of Incorporation	Ownership Interest		Carry amount of investment	
			2008 %	2007 %	2008 $	2007 $
Unlisted:						
Turner Bayou, LLC	Oil and Gas Exploration and Drilling	United States of America	80.80	80.80	7,383,237	5,784,096
Avoyelles Energy, LLC	Oil and Gas Exploration and Drilling	United States of America	52.00	52.00	2,986,736	524,133
					10,369,973	6,308,229

		Note	Consolidated Group		Parent Entity	
			2008 $	2007 $	2008 $	2007 $
a.	**Movements During the Year in Equity Accounted Investment in Associated Companies**					
	Balance at beginning of the financial year		6,308,229	3,130,786	-	-
	Adjustment for foreign currency movement		1,670,327	-		
Add:	New investments during the year		2,409,312	3,196,167	-	-
	Share of associated company's loss after income tax	10a	(17,895)	(18,724)	-	-
	Balance at end of the financial year		10,369,973	6,308,229	-	-
b.	**Equity accounted profits of associates are broken down as follows:**					
	Share of associate's profit before income tax expense		(17,895)	(18,724)	-	-
	Share of associate's income tax expense		-	-	-	-
	Share of associate's profit after income tax		(17,895)	(18,724)	-	-

NOTE 10: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

		Note	Consolidated Group		Parent Entity	
			2008	**2007**	**2008**	**2007**
			$	**$**	**$**	**$**
c.	**Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates**					
	Current assets		41,441	164,566	-	-
	Non-current assets		13,927,118	7,909,489	-	-
	Total assets		13,968,559	8,074,055	-	-
	Current liabilities		218,314	199,146	-	-
	Non-current liabilities		-	-	-	-
	Total liabilities		218,314	199,146	-	-
	Net assets		13,750,245	7,874,909	-	-
	Revenues		-	-	-	-
	Loss after income tax of associates		29,909	35,298	-	-

d. The reporting date of the associated companies is 31 December.

NOTE 11: CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned (%)*	
		2008	**2007**
Subsidiaries of Pryme Oil and Gas Limited Listed Public Ltd:			
Pryme Oil and Gas Inc	US	100%	100%
- Pryme Energy LLC (a)	US	100%	100%
- Trident Minerals LLC (b)	US	100%	-
- Pryme Royalty Holdings LLC (b)	US	100%	-
- Pryme Mineral Holdings LLC (b)	US	100%	-

** Percentage of voting power is in proportion to ownership*

a. In April 2007 the parent entity established a subsidiary, Pryme Energy Inc., with an initial investment of US$1. During the financial year, ownership of this entity was transferred to Pryme Oil and Gas Inc.

b. New subsidiaries were established during the 2008 financial year as follows: Trident Minerals LLC (29 February 2008), Pryme Royalty Holdings LLC (20 May 2008), Pryme Mineral Holdings LLC (20 May 2008).

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
PLANT AND EQUIPMENT					
Office Equipment:					
At cost		36,626	9,262	16,371	9,262
Accumulated depreciation		(8,869)	(3,436)	(6,401)	(3,436)
		27,757	5,826	9,970	5,826

a. **Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Office Equipment	Total
	$	$
Consolidated Group:		
Balance at 1 January 2007	6,503	6,503
Additions	1,499	1,499
Disposals	-	-
Depreciation expense	(2,176)	(2,176)
Balance at 31 December 2007	5,826	5,826
Additions	27,365	27,365
Disposals	-	-
Depreciation expense	(5,434)	(5,434)
Balance at 31 December 2008	27,757	27,757
Parent Entity:		
Balance at 1 January 2007	6,503	6,503
Additions	1,499	1,499
Disposals	-	-
Depreciation expense	(2,176)	(2,176)
Balance at 31 December 2007	5,826	5,826
Additions	7,109	7,109
Disposals	-	-
Depreciation expense	(2,965)	(2,965)
Balance at 31 December 2008	9,970	9,970

NOTE 13: INTANGIBLE ASSETS

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Formation costs				
Cost	1,077	1,077	1,077	1,077
Accumulated amortisation	(1,077)	(1,077)	(1,077)	(1,077)
Net carrying value	-	-	-	-

NOTE 14 WORKING INTEREST

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Exploration expenditure capitalised				
- Exploration and evaluation phases	3,906,396	2,143,607	-	-
- Less exploration costs written off	(954,744)	-	-	-
Production phase	12,831,629	7,842,108	-	-
Accumulated depletion	(2,299,625)	(647,671)	-	-
Intangible exploration costs capitalised*	2,464,182	1,924,392	-	-
Total Exploration Expenditure	15,947,838	11,262,436	-	-

*Intangible assets comprise the acquisition costs of seismic data. Recoverability of the carrying amount of these costs is dependent on either the successful exploration in the area of interest to which the seismic data relates or subsequent sale of the asset to third parties.

NOTE 15: TRADE AND OTHER PAYABLES

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
Current					
Other payables and accrued expenses		393,227	1,115,634	66,755	187,669

NOTE 16: ISSUED CAPITAL

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
111,056,732 (2007: 89,504,029) fully paid ordinary shares	31,634,885	23,303,352	31,634,885	23,303,352
Capital raising costs	(1,732,435)	(1,794,667)	(1,732,435)	(1,794,667)
	29,902,450	21,508,685	29,902,450	21,508,685

		Consolidated Group		Parent Entity	
		2008 No.	2007 No.	2008 No.	2007 No.
a.	**Ordinary shares**				
	At the beginning of reporting period	89,504,029	70,272,363	89,504,029	70,272,363
	Shares issued during the year				
	— 27 April 2007		6,666,666		6,666,666
	— 22 May 2007		62,500		62,500
	— 30 July 2007		50,000		50,000
	— 15 October 2007		200,000		200,000
	— 22 October 2007		11,562,500		11,562,500
	— 7 November 2007		200,000		200,000
	— 7 December 2007		500,000		500,000
	— 24 January 2008	75,000		75,000	
	— 6 March 2008	9,528,577		9,528,577	
	— 6 March 2008	8,571,423		8,571,423	
	— 6 March 2008	700,000		700,000	
	— 2 July 2008	2,575,000		2,575,000	
	— 3 July 2008	1,100		1,100	
	— 9 July 2008	101,603		101,603	
	Shares lapsed during the year				
	— 1 January 2007		(10,000)		(10,000)
	At reporting date	111,056,732	89,504,029	111,056,732	89,504,029

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTE 16: ISSUED CAPITAL (continued)

b. **Options**

	Consolidated Group		Parent Entity	
	2008	**2007**	**2008**	**2007**
20 cent option issued				
At the beginning of the period	5,943,000	4,475,000	5,943,000	4,475,000
20 April 2007		2,618,000		2,618,000
Less:				
20 cent options exercised/lapsed#				
28 February 2007		(250,000)		(250,000)
15 October 2007		(200,000)		(200,000)
7 November 2007		(200,000)		(200,000)
7 December 2007		(500,000)		(500,000)
2 July 2008	(2,575,000)		(2,575,000)	
2 July 2008	(75,000)		(75,000)	
2 July 2008	(1,175,000)		(1,175,000)	
Total 20 cent options	2,118,000	5,943,000	2,118,000	5,943,000
40 cent options issued				
At the beginning of the period	41,487,374	36,354,502	41,487,374	36,354,502
- 28 February 2007		(461)		(461)
- 27 April 2007		4,083,333		4,083,333
- 22 May 2007		150,000		150,000
- 9 July 2007		900,000		900,000
- 5 March 2008	500,000		500,000	900,000
Less 40 cent options exercised/lapsed				
- 3 July 2008	(1,100)		(1,100)	
- 3 July 2008	(41,486,274)		(41,486,274)	
Total 40 cent options	500,000	41,487,374	500,000	41,487,374
60 cent options issued				
At the beginning of the period				
- 9 July 2007		7,500,000		7,500,000
- 31 December 2007		(7,500,000)		(7,500,000)
Total 60 cent options	-	-	-	-

NOTE 17: RESERVES

a. **Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

b. **Option Reserve**

The option reserve records items recognised as expenses on valuation of directors share options under the Directors Incentive Option Plan.

NOTE 18: CAPITAL AND LEASING COMMITMENTS

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
a. **Operating Lease Commitments**					
Non-cancellable operating leases contracted for but not capitalised in the financial statements					
Payable — minimum lease payments					
— not later than 12 months		11,182	-	-	-
— between 12 months and 5 years		18,640	-	-	-
— Greater than 5 years		-	-	-	-
		29,822	-	-	-
c. **Capital Expenditure Commitments contracted for**					
Expenditure on working interest		213,101	379,334	-	-
		213,101	379,334	-	-
Payable:					
— not later than 12 months		213,101	379,334	-	-
— between 12 months and 5 years		-	-	-	-
— greater than 5 years		-	-	-	-
		213,101	379,334	-	-

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at 31 December 2008 (2007: Nil)

NOTE 20: SEGMENT REPORTING

Primary Reporting — Geographical Segments

	Australia		United States of America		Eliminations		Total	
	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $
Income	809,512	673,578	2,886,365	1,564,346	(482,046)	(539,628)	3,213,831	1,698,296
Depletion, depreciation and exploration expenditure written off	2,966	3,253	2,040,676	647,672	-	-	2,043,641	650,925
Segment result	(812,936)	(1,328,951)	8,734,884	(3,867,933)	(10,410,962)	1,834,931	(2,489,014)	(3,361,971)
Assets	29,057,436	24,400,466	27,160,721	17,908,397	(26,204,219)	(22,526,810)	30,013,938	19,781,583
Liabilities	66,755	187,667	26,530,548	23,156,939	(26,204,076)	(22,229,597)	393,227	1,115,634

Primary Reporting — Business Segments

The Consolidated group operates predominantly in the exploration and development for production of oil and gas and is therefore considered to be under one business segment.

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments. Segment assets include all assets used by a segment and consist principally of cash, receivables, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits and accrued expenses. Segment assets and liabilities do not include deferred income taxes.

Exploration Expenditure Write-offs

Expenditure previously capitalised in relation to two projects amounting to $954,744 (2007: Nil) relating to the United States of America Segment was recognised as an expense for the year ended 31 December 2008.

NOTE 21: CASH FLOW INFORMATION

		Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
a.	**Reconciliation of Cash Flow from Operations with Profit after Income Tax**				
	Loss after income tax	(2,489,014)	(3,361,971)	(812,936)	(1,328,950)
	Non-cash flows in profit				
	Depreciation, depletion and amortisation	1,088,897	650,924	2,965	3,253
	Share options expensed	948,650	2,049,656	498,102	861,200
	Intercompany fees			(482,046)	
	Write-off of capitalised expenditure	954,744			
	Movement in foreign currency reserve	1,537,794	(1,688,443)		
	Share of associated companies net loss after income tax and dividends	17,895	18,724		
	Changes in assets and liabilities				
	(Increase)/decrease in trade and term receivables	(621,862)	(100,689)	4,223	(21,723)
	(Increase)/decrease in prepayments	(25,070)	(21,464)	(2,861)	
	Increase/(decrease) in trade payables and accruals	(722,406)	675,938	(117,925)	108,410
	Cashflow from operations	689,628	(1,777,325)	(910,478)	(377,810)

b. **Credit Standby Arrangements with Banks**

There are no credit or standby arrangements with financiers as at 31 December 2008 (2007: Nil)

NOTE 22: EVENTS AFTER THE BALANCE SHEET DATE

As announced to the ASX on 6 February 2009, Pryme has taken a 25% working interest (18.75%-20% net revenue interest) in the Four Rivers Project.

The financial report was authorised for issue on 26 February 2009 by a committee of Directors under Board delegated authority.

NOTE 23: RELATED PARTY TRANSACTIONS

	Note	Consolidated Group		Parent Entity	
		2008 $	2007 $	2008 $	2007 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.					
Transactions with related parties:					
Key Management Personnel	5(b)	321,857	44,704	248,782	24,933
The working interest in one of Pryme's exploration projects is held via an entity of which John Dickinson is the sole director. Pryme holds an option over 100% of the shares in this entity.		292,865	-	-	-

NOTE 24: FINANCIAL RISK MANAGEMENT

a. **Financial Risk Management Policies**

The group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to and from subsidiaries and leases.

i. Treasury Risk Management

Senior executives of the group regularly analyse financial risk exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The executive's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Risk management policies are approved and reviewed by the Board on a regular basis.

ii. Financial Risk Exposures and Management

The main risks the group is exposed to through its financial instruments are foreign currency risk, liquidity risk, credit risk and price risk.

Interest Rate Risk

There is no exposure to interest rate risk as there is no debt owing.

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The group is also exposed to fluctuations in foreign currencies arising from the loans advanced by the Australian based parent entity to its United States based subsidiaries. Foreign currency gains/losses are recorded by the subsidiaries and eliminated on consolidation via the foreign currency translation reserve.

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds from capital raising are maintained for future expenditure on working interest.

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

Credit risk

The maximum exposure to credit risk is the carrying amount of receivables, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Credit risk is managed on a group basis. It arises from exposures to customers as well as through deposits with financial institutions.

The group manages credit risk by actively assessing the rating quality and liquidity of counter parties including:

- only utilising banks and financial institutions with an 'A' rating;
- all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under arrangements entered into by the consolidated group.

Price risk

The group is exposed to commodity price risk for oil and gas as determined by the world market prices which fluctuate based on demand and supply. These prices are regularly monitored.

b. **Financial Instruments composition and maturity analysis.**

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period and maturity, as well as managements expectations of the settlement period for all other financial instruments. As such amounts may not reconcile to the balance sheet.

			Fixed Interest Rate			
2008	**Average Interest Rate**	**Variable Interest Rate $**	**Less than 1 year $**	**1 to 5 years $**	**Non Interest Bearing $**	**Total $**
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	7.50%	2,963,925				2,963,925
Receivables	-				643,475	643,475
Financial Liabilities:						
Trade and sundry payables	-				(393,227)	(393,227)
Total		2,963,925			250,248	3,214,173
PARENT						
Financial Assets:						
Cash and cash equivalents	7.50%	2,823,586				2,823,586
Receivables	-				19,661	19,661
Financial Liabilities:						
Trade and sundry payables	-				(66,755)	(66,755)
Total		2,823,586			(47,094)	2,776,492

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

2007	Average Interest Rate	Variable Interest Rate $	Fixed Interest Rate Less than 1 year $	Fixed Interest Rate 1 to 5 years $	Non Interest Bearing $	Total $
CONSOLIDATED						
Financial Assets:						
Cash and cash equivalents	6.60%	1,854,713	-	-		1,854,713
Receivables	-	-	-	-	350,379	350,379
Financial Liabilities:		-	-	-		
Trade and sundry payables	-	-	-	-	(1,115,634)	(1,115,634)
Total		1,854,713	-	-	(765,255)	1,089,458
PARENT						
Financial Assets:						
Cash and cash equivalents	6.60%	1,746,107	-	-	-	1,746,107
Receivables	-	-	-	-	121,723	121,723
Financial Liabilities:						
Trade and sundry payables	-	-	-	-	(187,667)	(187,667)
Total		1,746,107	-	-	(65,944)	1,680,163

c. **Net Fair Values**

The net fair values of:

— Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value.

— Other assets and other liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments, forward exchange contracts and interest rate swaps.

Financial assets where the carrying amount exceeds net fair values have not been written down as the consolidated group intends to hold these assets to maturity.

d. **Sensitivity Analysis**

Interest Rate Risk, Foreign Currency Risk and Price Risk

The group has performed sensitivity analysis relating to its exposure to price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

Price Risk Sensitivity Analysis

At 31 December 2008, the effect on profit and equity as a result of changes in the price risk, with all other variables remaining constant would be as follows:

	Consolidated Group		Parent Entity	
	2008 **$**	**2007** **$**	**2008** **$**	**2007** **$**
Change in profit				
— Increase in oil/gas price by 10%	**315,887**	**135,828**	**-**	**-**
— Decrease in oil/gas price by10%	**(315,887)**	**(135,828)**	**-**	**-**

The above price risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

NOTE 25: COMPANY DETAILS

The registered office of the company is:

Pryme Oil and Gas Limited

Level 7, 320 Adelaide Street

Brisbane QLD 4000

The principal places of business are:

— Pryme Oil and Gas Inc
1001 Texas Ave, Suite 1400 Houston
Texas 77002, United States of America

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Pryme Oil and Gas Limited (Pryme):

   (a) the Financial Statements and Notes as set out on pages 24 to 54 are in accordance with the Corporations Act 2001, including:

      i. complying with Accounting Standards and Corporations Regulations 2001; and
      ii. giving a true and fair view of Pryme's financial position as at 31 December 2008 and of their performance as represented by the results of their operations and their cash flows for the year ended on that date; and

   (b) the remuneration disclosures that are included on pages 11 to 22 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures; and

   (c) there are reasonable grounds to believe that Pryme will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 31 December 2008.

Signed in accordance with a Resolution of the Directors:

Justin Pettett
Managing Director
Brisbane, Queensland

26 February 2009

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PRYME OIL AND GAS LIMITED & CONTROLLED ENTITIES

Report on the Financial Report

We have audited the accompanying financial report of Pryme Oil and Gas Limited (the company) and Pryme Oil and Gas Limited & Controlled Entities (the consolidated entity), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: "Presentation of Financial Statements", that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors are also responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the *Corporations Regulations 2001*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors Pryme Oil and Gas Limited on 17 February 2009, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

(a) the financial report of Pryme Oil and Gas Limited and Pryme Oil and Gas Limited & Controlled Entities is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and

(c) the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

Moore Stephens

MOORE STEPHENS

M. J McDonald
Partner

Brisbane, 26th February 2009

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